

STRANDLINE RES. LTD (STA)

Model update

Strandline Res. Ltd (STA) recently announced that NAIF (Northern Australia Infrastructure Fund) will provide a debt facility of up to A\$150m in two tranches, based on a 15.5 year term. The first tranche is up to A\$130m towards the construction of Coburn's core mine infrastructure and second tranche of up to A\$20m to fund a potential future northern access road linking the project more directly to the Denham community in Shark Bay.

We estimate the capital requirement for Coburn is ~A\$300m (DFS capex estimate is A\$260m). After allowing for NAIF, this leaves a capital shortfall of ~A\$170m. We would expect a significant proportion can be obtained from commercial debt financing. NAIF is conditional on pari passu security ranking with any commercial bank financing. Hence, we assume only modestly less equity than before (we have lowered our equity assumption from A\$150m to A\$115m).

Earlier this year, STA announced offtake agreements. The fixed price nature of the ilmenite contract is a big positive for debt financing, particularly in current environment. The ability to sell HMC while the MSP is commissioning is also positive for de-risking.

Speculative Buy recommendation

We have updated our STA model. We have increased our valuation to 39cps. The rally in the share price (+125% since our 24th April note) means the dilution we assume for new equity is significantly lower, increasing our valuation per share. Our NAV estimate (A\$380m) has actually reduced slightly due to assumed deferrals in the development of other projects.

The fact that there is still some offtake available for premium zircon and rutile (high value products) is positive for strategic reasons. It also raises the speculative odds of an industry equity injection, keeping the possibility of an outfield positive catalyst alive as the Company progresses through financing. The location of the project in WA's traditional mineral sands province gives it strategic importance, in our view. We maintain our Speculative Buy recommendation.

Fig. 1: Coburn Mineral Sands access road - Hartleys site visit



Source: Hartleys site visit, Jun 2019

Share Price	\$0.265
Valuation	\$0.39
Price Target (12 month)	\$0.42

Brief Business Description:

Mineral sands developer in Australia and Tanzania.

Hartleys Brief Investment Conclusion

STA has potential to build substantial mineral sands business. Coburn is a large WA asset and very advanced. The Fungoni development is small zircon rich project in Tanzania.

Chairman & MD

Didier Murcia (Non Exec-Chairman)

Luke Graham (MD)

Top Shareholders

Tembo	37.6%
C&H Investments	7.3%
Gasmere / Hatch	4.9%

Company Address

35 Richardson St
West Perth, WA 6005

Issued Capital 426.8m

- fully diluted 456.2m

Market Cap A\$113.1m

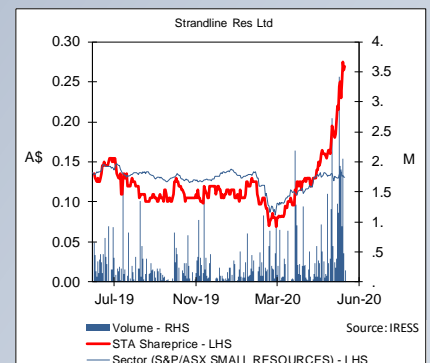
- fully diluted A\$120.9m

Cash (30 Jun 20e) A\$7.0m

Debt (30 Jun 20e) A\$0.0m

EV A\$106.1m

	FY19e	FY20e	FY21e
EBITDA	-1.9	-4.0	-4.0
Op Cash Flw	-2.1	-3.1	-13.3
Norm NPAT	-2.1	-4.3	-15.9
CF/Share (cps)	-0.7	-0.8	-1.9
EPS (cps)	-0.7	-1.1	-2.3
P/E	-40.5	-24.2	-11.5



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Hartleys has assisted in the completion of a capital raising in the past 12 months for Strandline Resources Limited ("Strandline") for which it has earned gross fees. See back page for disclosure

SUMMARY MODEL

Strandline Res Ltd						Share Price	
STA						\$0.265	
Key Market Information							
Share Price						\$0.265	
Market Capitalisation - ordinary						A\$113m	
Net Debt (cash)						-\$7m	
Market Capitalisation - fully diluted						A\$121m	
EV						A\$112m	
EV inc. assumed new capital						A\$472m	
Issued Capital						426.8m	
Options						29.4	
Issued Capital (fully diluted inc. all options)						456.2m	
Issued Capital (fully diluted inc. all options and new capital)						980.8m	
Valuation						\$0.39	
12month price target						\$0.42	
P&L	Unit	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23		
Net Revenue	A\$m	0.0	0.0	0.0	120.5		
Total Costs	A\$m	-4.0	-4.0	-4.0	-61.9		
EBITDA	A\$m	-4.0	-4.0	-4.0	58.6		
- margin					49%		
Depreciation/Amort	A\$m	-0.4	-2.6	-12.0	-19.8		
EBIT	A\$m	-4.4	-6.6	-16.0	38.8		
Net Interest	A\$m	0.1	-9.3	-21.0	-22.9		
Pre-Tax Profit	A\$m	-4.3	-15.9	-37.0	15.8		
Tax Expense	A\$m	0.0	0.0	0.0	0.0		
Normalised NPAT	A\$m	-4.3	-15.9	-37.0	15.8		
Abnormal Items	A\$m	0.0	0.0	0.0	0.0		
Reported Profit	A\$m	-4.3	-15.9	-37.0	15.8		
Minority	A\$m	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	-4.3	-15.9	-37.0	15.8		
Balance Sheet	Unit	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23		
Cash	A\$m	7.0	255.4	24.8	79.5		
Other Current Assets	A\$m	0.0	0.0	0.0	1.7		
Total Current Assets	A\$m	7.0	255.4	24.8	81.2		
Property, Plant & Equip.	A\$m	-0.6	57.8	269.8	250.0		
Exploration	A\$m	15.5	19.5	23.5	27.5		
Investments/other	A\$m	0.2	0.2	0.2	0.2		
Tot Non-Curr. Assets	A\$m	15.2	77.6	293.5	277.7		
Total Assets	A\$m	22.2	333.0	318.4	358.9		
Short Term Borrowings	A\$m	-	-	-	-		
Other	A\$m	1.8	1.8	1.8	26.5		
Total Curr. Liabilities	A\$m	1.8	1.8	1.8	26.5		
Long Term Borrowings	A\$m	-	212.4	234.7	234.7		
Other	A\$m	-	-	-	-		
Total Non-Curr. Liabil.	A\$m	-	212.4	234.7	234.7		
Total Liabilities	A\$m	1.8	214.1	236.5	261.2		
Net Assets	A\$m	20.4	118.9	81.9	97.7		
Net Debt	A\$m	-7.0	-43.1	209.9	155.2		
Cashflow	Unit	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23		
Operating Cashflow	A\$m	-3.1	-4.0	-4.0	81.6		
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0		
Interest & Other	A\$m	0.1	-9.3	-21.0	-22.9		
Operating Activities	A\$m	-3.1	-13.3	-25.0	58.7		
Property, Plant & Equip.	A\$m	0.0	-61.0	-224.0	0.0		
Exploration and Devel.	A\$m	-6.7	-4.0	-4.0	-4.0		
Other	A\$m	0.0	0.0	0.0	0.0		
Investment Activities	A\$m	-6.7	-65.0	-228.0	-4.0		
Borrowings	A\$m	0.0	212.4	22.4	0.0		
Equity or "tbc capital"	A\$m	12.5	114.3	0.0	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	12.5	326.7	22.4	0.0		
Net Cashflow	A\$m	2.7	248.4	-230.6	54.7		
Shares	Unit	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23		
Ordinary Shares - End	m	426.9	961.1	970.1	977.5		
Ordinary Shares - W'ted	m	396.4	694.0	965.6	973.8		
Diluted Shares - W'ted	m	396.5	689.3	951.6	951.6		
Ratio Analysis	Unit	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23		
Cashflow Per Share	A\$ cps	-0.8	-1.9	-2.6	6.0		
Cashflow Multiple	x	-34.3	-13.8	-10.3	4.4		
EV (+ cap.) / EBIT	x		-71.3x	-29.5x	12.2x		
EV (+ cap.) / EBITDA	x		-118.1x	-118.1x	8.1x		
Earnings Per Share	A\$ cps	-1.1	-2.3	-3.8	1.6		
Price to Earnings Ratio	x	-24.2	-11.5	-6.9	16.3		
Dividends Per Share	AUD	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity	%	-52%	-57%	72%	61%		
Interest Cover	X	77.6	na	na	1.7		
Return on Equity	%	na	na	na	16%		
Analyst: Trent Barnett							
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tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.							
Sources: IRESS, Company Information, Hartleys Research							
1 July 2020							
Speculative Buy							
Directors						Company Information	
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Luke Graham (MD)						West Perth, WA 6005	
Peter Watson (Exec Director)						+61 8 9226 3130	
Earnest (Tom) Eadie (Non- Exec Director)							
John Hodder (Non- Exec Director, Tembo nominee)						www.strandline.com.au	
Top Shareholders						m shares	%
Tembo						160.4	37.6%
C&H Investments						31.2	7.3%
Gasmere / Hatch						21.0	4.9%
Reserves & Resources						Mt	Grade
Total Resource						1896	1.5%
Fungoni						22	2.8%
Tajiri						268	3.3%
Coburn						1606	1.20%
Total Reserve						535	1.2%
Fungoni						12	3.9%
Tajiri						0	
Coburn						523	1.1%
Coburn Production Summary						Unit	Jun 20
Mining Inventory						Mt	881.3
						%	1.1%
Mill Throughput						Mt	0.0
HM grade						%	-
Zr production						kt	0.0
Rutile / Hi-Ti production						kt	0.0
Chlor. Ilmenite production						kt	0.0
Ilmenite						% rev.	17.5%
Zircon						% rev.	35.0%
Rutile / Hi-Ti production						% rev.	16.0%
Monazite						% rev.	31.6%
Fungoni Production Summary						Unit	Yr1
Mining Inventory						Mt	15.4
						%	3.7%
Mill Throughput						Mt	0.0
HM grade						%	0.0%
Zr production						kt	0.0
Rutile / Hi-Ti production						kt	0.0
Chlor. Ilmenite production						kt	0.0
Ilmenite						% rev.	21.0%
Zircon						% rev.	61.0%
Rutile / Hi-Ti production						% rev.	10.7%
Monazite						% rev.	7.3%
Price Assumptions						Unit	Jun 20
AUDUSD						USD/AUD	0.66
Chloride Ilmenite						US\$/t	235
Zircon						US\$/t	1460
Rutile						US\$/t	1059
Leucoxene						US\$/t	788
Monazite						US\$/t	1975
Sensitivity Analysis						Valuation	FY23 NPAT
Base Case						0.39	15.8
Spot Prices						0.55 (40.7%)	17.3 (9.1%)
Spot USD/AUD 0.69, Sulphate Ilmenite cfr \$208/t, Chloride Ilmenite cfr \$225/t, Zircon \$1400/t, Rutile \$1150/t.							
AUDUSD +/-10%						0.21 / 0.56 (-46.0% / 44.5%)	5.2 / 28.9 (-67.2% / 82.1%)
Ilmenite +/-10%						0.41 / 0.37 (5.9% / -5.9%)	15.8 / 15.8 (0.0% / 0.0%)
chloride ilmenite +/-10%						0.41 / 0.36 (6.8% / -7.2%)	18.2 / 13.5 (15.0% / -15.0%)
Zircon +/-10%						0.48 / 0.28 (23.0% / -26.9%)	23.6 / 8.1 (49.2% / -49.2%)
Rutile +/-10%						0.42 / 0.35 (9.1% / -9.0%)	17.1 / 14.6 (8.1% / -8.1%)
Leucoxene +/-10%						0.40 / 0.38 (1.9% / -1.9%)	16.5 / 15.2 (4.4% / -4.4%)
Operating Costs +/-10%						0.30 / 0.47 (-23.4% / 21.9%)	10.4 / 21.3 (-34.1% / 34.1%)
Production +/-10%						0.56 / 0.17 (44.7% / -55.7%)	27.7 / 4.0 (74.5% / -74.5%)
Unpaid Capital						No. (m)	\$m
Year Expires							% ord
30-Jun-20						0.0	0%
30-Jun-21						9.5	2%
30-Jun-22						9.0	2%
30-Jun-23						7.4	2%
30-Jun-24						3.5	1%
30-Jun-25						0.0	0%
TOTAL						29.4	7%
Valuation						\$m	/shr
Fungoni						50	0.05
100% Coburn (pre-tax NAV at disc. rate of 12%)						318	0.32
Tajiri						129	0.13
Other Assets/Exploration						5	0.01
Forwards						0	0.00
Corporate Overheads						-42	-0.04
Net Cash (Debt)						7	0.01
Tax (NPV future liability)						-88	-0.09
Options & Other Equity						2	0.00
Total						381	0.39

Fig. 1: Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Coburn is developed	High	High	We assume Coburn is developed in our valuation
Discount to Fungoni development valuation	High	High	In our valuation, we assume Fungoni is attributed a value less than our development valuation
Equity dilution	Low	High	We assume substantial new shares to develop Coburn.
79% project ownership in Tanzania	Low	upside	We assume STA would need to fund 95% of the capital (free carries Govt 16% interest but not the local partners interest), but the capital is repaid (including equity) before the Govt earns dividends. It is possible the yet to be determined 5% local partner cannot contribute and hence there is upside risk to our assumption for STA economic interest.
Commodity prices	Moderate	High	We assume improving AUD rutile prices and ilmenite prices but weaker AUD zircon prices
AUD appreciates	High	Upside / Downside	Using current FX Coburn is substantially more viable. We assume appreciating AUD. Further depreciation though would improve our STA valuation
Value for Tajiri	Moderate	High	We have a speculative unfunded model for Tajiri and use NPV14 given the speculative assumptions.
RIO options not exercised	Moderate	Upside	We don't assume the RIO options are exercised. This is purely to simplify our valuation. Exercise would increase STA cash balance.
Exploration success	Moderate	High	We attribute some value to exploration potential beyond the assumed mine life extension.
<i>Conclusion</i>	<i>We believe our STA assumptions are realistic but given the risks and assumptions we rate it as a speculative.</i>		

Source: Hartleys Research

Fig. 2: STA Coburn financial economics

Category	Original DFS – Final Product Case (Apr-19)	Updated DFS – Final Product Case (Jun-20)
Mine Life	22.5yrs	22.5yrs
Tonnes Mined	523Mt	523Mt
Throughput	23.4Mt/tpa	23.4Mt/tpa
Capital Expenditure (Pre-production)	A\$257M	A\$260M
Revenue	A\$3.91B	A\$4.37B
Total Opex (C1)	A\$1.78B	A\$1.80B
Total All-in Sustaining Costs (AISC)	A\$2.04B	A\$2.08B
Revenue-to-operating cost (C1) ratio (RC)	2.2	2.4
Avg. annual C1 Cost	A\$360/t	A\$361/t
Avg. annual AISC ("A")	A\$413/t	A\$418/t
Avg. annual Basket Price ("B")	A\$792/t	A\$877/t
Avg. Cash Margin (B-A)	A\$379/t	A\$459/t
EBITDA	A\$1.93B	A\$2.35B
Avg. annual EBITDA	A\$86M	A\$104M

Source: STA

Fig. 3: Product specifications (January 2020)**Table 3** Coburn Project Final Product Specification

Analyses	Units	Ilmenite	Rutile (HiTi)	Premium Zircon	Zircon Concentrate
TiO ₂	%	62.41	93.25	0.15	7.11
Fe ₂ O ₃ (XRF)	%	29.54	2.14	0.09	4.52
Al ₂ O ₃	%	1.1	0.57	0.31	24.81
SiO ₂	%	3.18	1.74	32.8	32.27
Cr ₂ O ₃	%	0.14	0.16	<0.002	0.05
ZrO ₂ + HfO ₂	%	0.06	0.31	66.4	28.76
CaO	%	0.07	0.05	0.01	0.08
MgO	%	0.23	0.05	0.01	0.88
MnO	%	0.79	0.01	0.01	0.07
CeO ₂	%	0.01	0.01	0.02	0.13
Th	ppm	135	50	146	349
U	ppm	17	25	202	137
D50	(µm)	148	121	125	155

Source: STA

Fig. 4: Access road to be upgraded, but straight with modest rises



Source: Hartleys site visit, Jun 2019

Fig. 5: Non-descript landscape



Source: Hartleys site visit, Jun 2019

Fig. 6: Low head grade but beneficiates well at front end



Source: Hartleys site visit, Jun 2019

Fig. 7: STA owns the pastoral lease where the first 20 years of ore reserves reside.



Source: Hartleys site visit, Jun 2019

PRICE TARGET

Our price target is 42cps (previously 21cps).

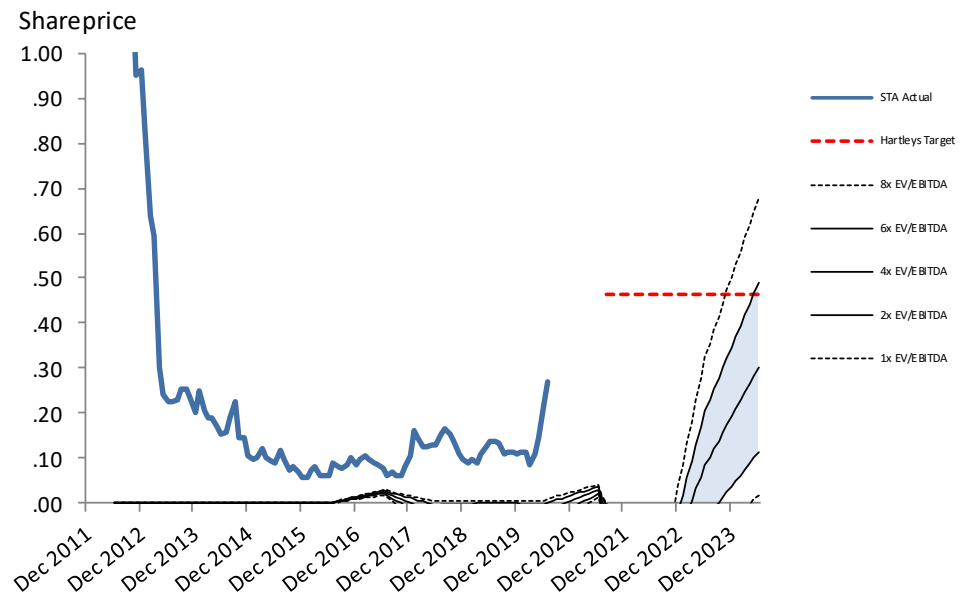
Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ consensus prices	75%	\$0.39	\$0.44
NPV ₁₂ at spot commodity and fx prices	10%	\$0.55	\$0.62
NPV ₈ consensus prices	1%	\$0.83	\$0.92
NPV ₈ at spot commodity and fx prices	1%	\$1.10	\$1.21
Net cash backing	13%	\$0.02	\$0.02
Risk weighted composite		\$0.37	
12 Months Price Target		\$0.42	
Shareprice - Last		\$0.265	
12 mth total return		58%	

RISKS

The key risks for STA (like most mine companies in development) is obtaining the necessary funding to complete the project. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, plant and mine design mistakes or lower production. Although some earnings disappointments can be short term and are only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example metallurgy problems). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage (if it exists at that time) would add to the problem. Sovereign risk is also reasonably high in Africa.

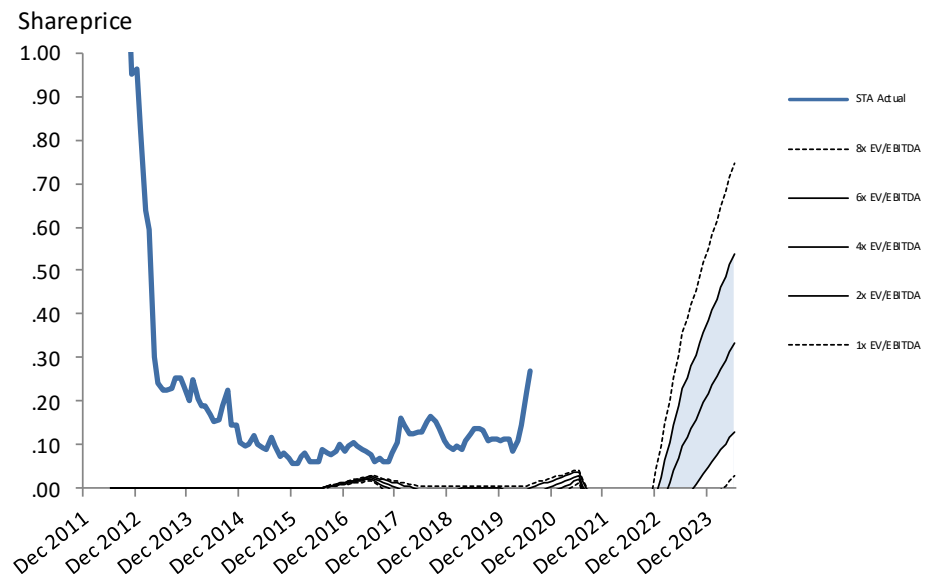
EV/EBITDA BANDS

Fig. 2: EV/EBITDA Base case



Source: Hartleys Estimates

Fig. 3: EV/EBITDA spot case



Source: Hartleys Estimates

HARTLEYS CORPORATE DIRECTORY

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Note: personal email addresses of company employees are structured in the following manner: *firstname.lastname@hartleys.com.au*

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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Hartleys has assisted in the completion of a capital raising in the past 12 months for Strandline Resources Limited ("Strandline") for which it has earned gross fees. The analyst travelled to site at the expense of STA, with all associated costs being covered by STA.

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